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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform for Incumbent	)	CC Docket No. 98-77
Local Exchange Carriers Subject to	)	
Rate-of-Return Regulation	)	

COMMENTS OF THE WESTERN ALLIANCE

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SUMMARY

The Western Alliance opposes restructuring at this time of the interstate access charges that constitute the primary revenue source for rural telephone companies.

Restructuring will not offset or overcome the demographic, geographic and economic conditions that have long hampered and discouraged most carriers (not to mention competitors) from serving rural areas. Rather, restructuring will: (a) increase the rates borne by rural residents and small businesses, without any compensating increases in service; and (b) disrupt the revenues and investment funds of the rural telephone companies that have long been the only entities willing to serve many rural areas.

The Commission must keep in mind that the goal of the 1996 Act is the enhancement of the telecommunications and information **services** available to all Americans. Congress declared that consumers in rural areas must have access to services reasonably comparable to those provided in urban areas at rates reasonably comparable to those charged for similar services in urban areas. This requirement of urban/rural comparability -- and not mere "competition for competition's sake" -- must be the focus of this proceeding. It will not be achieved by experiments that render uncertain or reduce the principal revenue source of the only entities that have heretofore exhibited any willingness to invest in the telecommunications infrastructure needed to provide comparable services in many rural areas.

If the Commission nonetheless determines to proceed with access charge restructuring at this time, the Western Alliance: (a) proposes that the SLCs and PICCs of rate-of-return LECs be capped at the national average SLCs and PICCs for the price cap LECs; (b) proposes that the residual Carrier Common Line (CCL) charge be capped at one cent ($0.01) per minute for originating calls; and (c) opposes the shift of local switching costs, residual Transport Interconnection Charge (TIC) costs and marketing costs to the common line category, and their recovery via SLCs, PICCs or residual CCL charges.

In addition, the Western Alliance opposes: (a) the use of Universal Service Fund (USF) dollars to reduce interstate access revenue requirements; and (b) the allocation of General Support Facilities (GSF) investment and expenses to the Billing and Collection category.

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The Western Alliance submits its comments regarding the Commission's Notice Of Proposed Rulemaking (Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation), FCC 98-101, released June 4, 1998 (NPRM).

Introduction

Interstate access charges constitute the principal source of revenue for rural telephone companies. Modification of the structure of these charges is inadvisable and unnecessary at this time. The proposed changes will not achieve the NPRM's stated goals, but rather will adversely impact the services, rates and investment resources of the only entities that have demonstrated a sustained commitment to serve many rural areas.

The NPRM's stated goal is the fostering and acceleration of telecommunications "competition" in rural areas. However, the sparse populations, harsh terrain and climate, and high costs that have long discouraged investment (much less, competition) in rural areas will not be ameliorated or counterbalanced by the proposed changes in access charges. Rather, the primary impact of such changes will be to render uncertain or reduce the revenues and investment resources of existing rural telephone companies.

Bypass arrangements previously have permitted interexchange carriers to siphon away from rural telephone companies much of the interstate access traffic of large, multi-line rural businesses. Hence, the proposed increased Subscriber Line Charges (SLCs) and new Presubscribed Interexchange Carrier Charges (PICCs) will not be paid by most large rural businesses for most of their lines. In fact, the principal impact of the new SLCs and PICCs with respect to large rural businesses will be to ensure that rural telephone companies lose any remaining large business customers to bypass arrangements, and that they will not regain the large business customers previously lost.

The rural customers paying the new SLCs, PICCs and other access revisions will be predominately residential and small business customers. There is no evidence or reason to believe that these restructured charges will generate enough additional dollars from enough residential and small business customers to induce entrepreneurs to make the investments necessary to offer new or competitive services in most rural areas. Certainly, very few entities have shown any interest in serving rural areas during recent decades when they could have done so on an exclusive basis. Rather, the primary impact of the proposed changes will be to increase the bills of rural households and small businesses without any corresponding increases in quality or service options.

Similar restructuring of the interstate access charges of the price cap carriers thus far has produced complaints and public perceptions that local telephone service bills have increased substantially, without offsetting decreases in long distance toll charges or increases in local service competition. These conditions are diametrically opposed to the results desired by the Commission and the Congress. The Commission should study and resolve these problems before imposing similar changes upon the smaller and more vulnerable rural telephone companies and their customers.

If the Commission nonetheless determines to proceed with access charge restructuring at this time, the Western Alliance: (a) proposes that the SLCs and PICCs of rate-of-return LECs be capped at the national average SLCs and PICCs for the price cap LECs; (b) proposes that the residual Carrier Common Line (CCL) charge be capped at one cent ($0.01) per minute for originating calls; and (c) opposes the shift of local switching costs, residual Transport Interconnection Charge (TIC) costs and marketing costs to the common line category, and their recovery via SLCs, PICCs or residual CCL charges.

In addition, whereas it is implied in the NPRM that the proposed restructuring will be revenue neutral, several associated proposals will substantially decrease the interstate access revenues received by rural telephone companies. The Western Alliance opposes: (a) the use of Universal Service Fund (USF) dollars to reduce interstate access revenue requirements; and (b) the allocation of General Support Facilities (GSF) investment and expenses to the Billing and Collection category.

The Western Alliance

The Western Alliance is a consortium of the Western Rural Telephone Association and the Rocky Mountain Telecommunications Association. It represents nearly 250 carriers serving rural areas west of the Mississippi River, including Alaska, Hawaii and insular territories.

Most Western Alliance members are small commercial telephone companies or cooperatives serving less than 3,000 access lines overall and less than 500 access lines per exchange. They have revenue streams far below the telephone industry average and lack significant economies of scale. Nonetheless, they incur per-customer costs far in excess of the telephone industry average to serve sparsely populated farming and ranching areas, remote mountain and desert communities, and Native American reservations.

Interstate access charges constitute the largest and most significant revenue source for Western Alliance members. Even after the recent transfer of weighted dial equipment minutes (DEM) revenues to the Universal Service Fund (USF), interstate access charges typically account for 37 to 58 percent of the revenues of Western Alliance members.

The Core Principle of Comparable Services and Rates in Urban and Rural Areas

The express goal of the Telecommunications Act of 1996 (1996 Act) was to accelerate private sector deployment of advanced telecommunications and information technologies and services to all Americans. Conference Report (H. Rept. 104-458) at 1. Whereas the opening of markets to competition is a means of striving for this goal, Congress made it clear that **service** was the focus of the 1996 Act.

Congress sought to ensure that all Americans continue to enjoy existing services at affordable rates, and have access to new services. It expressly required the preservation and enhancement of service in rural areas to which competition might not come or stay. Among other things, Congress ordered that "[c]onsumers in all regions of the Nation, including low-income consumers and those in rural, insular and high cost areas, should have access to telecommunications and information services . . . that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas." 47 U.S.C. §254(b)(3).

Urban/rural comparability -- and not mere "competition for competition's sake" -- is the central principle governing this proceeding. The Commission's access rate structure must ensure that at least one entity has the sustained interest and capability to construct, maintain and upgrade the infrastructure necessary to provide comparable services in each rural area. In addition, the Commission must recognize that rural customers have more limited local calling areas than their urban counterparts, and prevent the local service rates, SLCs and PICCs paid by rural customers from exceeding (on a dollar or proportional calling area basis) those paid by urban customers.

At present, Western Alliance members have made substantial investments in an effort to furnish their rural customers with facilities and services comparable to those in urban areas. Members have installed digital switches, upgraded subscriber loops, and constructed inter-office fiber facilities in order to offer their rural customers affordable local exchange service, single-party lines, reliable facsimile transmission, custom calling services, equal access to competitive interLATA toll carriers, access to the Internet and value-added data networks, and access to emergency services and directory assistance.

Most rural telephone companies are locally owned and operated. Unlike larger entities whose investment options are constrained by the requirements of the capital markets, rural telephone companies have been able to focus upon the service needs and economic development of their rural communities. For example, one Western Alliance member has played a critical role in the growth of Dutch Harbor, Alaska (located in the Aleutian Islands approximately 800 miles southwest of Anchorage, Alaska) from a virtual ghost town to a thriving seaport and seafood processing center. In 1972, the member brought telephone service to Dutch Harbor. From an initial base of 49 customers, the Dutch Harbor telephone system has grown to serve 2,300 customers. Meanwhile, Dutch Harbor again has become a prosperous seaport, and four new seafood processing plants have brought in hundreds of millions of dollars of investment and thousands of jobs. At present, the Western Alliance member provides single-party service, digital touch tone dialing, equal access to long distance carriers, numerous custom calling features, access to operator service, E-911 service and directory assistance. The member has installed T-1 facilities to enable a Dutch Harbor health clinic to transport x-rays and other critical medical data to and from the regional hospital in Anchorage. The member has also provided Internet access to the Dutch Harbor school and library.

The Western Alliance was encouraged by Chairman William E. Kennard's November 10, 1997 speech to the National Association of Regulatory Utility Commissioners (NARUC), and especially by his emphasis upon the principle of "community." The Western Alliance agrees with Chairman Kennard that communications technology should help build communities; that it should provide rural areas with the same opportunities and the same benefits as metropolitan areas; and that the information highway must not bypass Rural America.

However, the continued availability and growth of high quality and affordable telecommunications services in rural areas depends a great deal upon the Commission's actions in this proceeding. As the Commission recognized in its Report And Order (Federal-State Joint Board on Universal Service), 12 FCC Rcd 8776, 8936 (1997) (Universal Service Order), changes in revenues and support flows can disproportionately affect the operations of rural telephone companies. The high costs, limited revenues and assets, and small size of Western Alliance members leave precious little margin for error if interstate access charges -- their largest and most important revenue source -- are reduced, disrupted or rendered uncertain.

During recent years, the Commission has imposed substantial new facility upgrade costs (e.g., for number portability, four-to-six digit CIC codes, caller ID blocking, 800 database, originating line screening, and dialing parity requirements) upon rural telephone companies. It has also required them to pay new regulatory fees, as well as new "contributions" to an increasing number of programs (e.g., Telecommunications Relay Service, numbering plan administration, and the schools and libraries fund). At the same time, the Commission has reduced the Universal Service Fund (USF) revenues of most rural telephone companies (via the "interim" USF cap and the cap on Corporate Operations Expense), and has proposed in its Jurisdictional Separations Reform proceeding (CC Docket No. 80-286) to further cut their interstate revenues (e.g., by assigning costs "associated" with the provision of local exchange service to the intrastate jurisdiction; reducing the interstate access revenue requirements of LECs by the amount of federal high cost support they receive; and limiting recovery of spare facility costs). If the Commission now insists upon reducing or rendering uncertain the largest element of the typical Western Alliance member's revenues, it will adversely impact not only existing rural service and rates but also the infrastructure investment necessary to permit the affected rural areas to participate in the 21st Century economy.

The Role of Competition

"Competition" is merely one possible means of addressing the 1996 Act's service goals. The recent terminations and reductions of airline service to small cities and rural areas resulting from "airline deregulation" demonstrate that competition is not an effective means for improving service in all situations and circumstances. In particular, experiments in telecommunications competition will not advance the service goals of the 1996 Act if they weaken and disrupt the operations and viability of proven rural service providers and if no other entities come to take their place.

The purpose of this proceeding has been asserted as to "foster and accelerate" the introduction of competition into rural areas. NPRM, paras. 1 and 2. However, the absence of telecommunications competition in most of rural America is not due to the current interstate access rate structure, to the "rural exemption" of Section 251(f)(1) of the Act, or to any other legal or regulatory factor. Rather, the small and widely scattered number of potential rural customers and the high costs of serving them (often in harsh terrain and climates) have rendered competition impracticable and unprofitable in much of Rural America.

The origin of most existing rural telephone companies can be traced to decisions by the former Bell System that it was not efficient or profitable to invest its resources to serve certain rural areas. During recent years, the steady stream of rural exchange sales by US WEST, SBC, GTE, Sprint and other large carriers demonstrate graphically that fundamental economic conditions have not changed, and that large portions of Rural America still are not viewed as attractive investment areas. See, e.g., Union Tel. Co. and US WEST Communications, Inc., AAD Docket No. 96-120, Memorandum Opinion and Order, DA 97-269 (Feb. 6, 1997); Pend Oreille Tel. Co. and GTE Northwest, Inc., AAD Docket No. 96-35, Memorandum Opinion and Order, DA 97-67 (Jan. 10, 1996); Accipiter Communications, Inc. and US WEST Communications, Inc., AAD Docket No. 96-35, Memorandum Opinion and Order, DA 96-1883 (Nov. 14, 1996). In fact, the few instances of "rural competition" to date have generally entailed the entry by a neighboring rural telephone company into a community like Hill City or Bogue, Kansas that was long neglected by a larger LEC. In such cases, the "competition" normally has been short-lived, lasting only for the brief time necessary for most of the larger LEC's customers to migrate to the rural telephone company's service.

Rural telephone companies have been the only entities that have demonstrated a sustained interest in serving the households and small businesses within their areas. During the last 10-to-15 years, AT&T, MCI and other interexchange carriers (IXCs) have used special access arrangements to serve large, multi-line businesses in rural areas, and have long ago taken most of the access traffic of these large customers away from rural telephone companies. However, neither these IXCs nor other entities have yet taken any perceptible steps to compete for the local exchange or exchange access traffic of households and small businesses in rural areas.

The Commission should exercise extreme care in restructuring the interstate access charges depended upon by existing rural telephone companies. Caution is especially critical until the Commission can be certain that rural telephone companies will be able to continue providing quality and affordable service to the households and small businesses dependent upon them, and that competitors will actually begin to enter (and remain for the long term) into significant numbers of rural areas.

What remedial actions will the Commission take if its proposed changes disrupt, reduce or limit the services of existing rural telephone companies, without encouraging the entry of competitors? For example, what does the Commission expect to accomplish by increasing the monthly multi-line business SLC from $6.00 to $9.00 or more? Given that most Wal-Marts, factories and other large businesses presently bypass rural telephone companies for most of their traffic, the increased charge will generate little or no additional access revenue from these large businesses. At the same time, the additional access revenue ($3.00 or so per line per month) recovered from the twenty or thirty small, 2-to-15 line businesses served the typical rural telephone company is not enough to attract new competitors to most rural areas. Rather, the likely impact of the proposed multi-line SLC change is to increase the telecommunications costs of the small Main Street retailers struggling to compete with the Wal-Mart, some of whom may decide to reduce those costs (and the rural telephone company's revenues) by discontinuing service on one or more of their existing lines.

"Competition" may be an attractive concept in the abstract, but no one has yet determined the nature and amount of access restructuring that will attract and sustain competition in rural areas. How high do SLCs, PICCs and local service rates need to rise to convince a competitor to enter a 500-line exchange, a 1,000-line exchange, or even a 5,000 line exchange? Will such increased rural SLCs, PICCs and local service rates be affordable, or be reasonably comparable to the rates charged for similar services in urban areas? If the purpose of competition is improved service at lower rates, what is the logic of substantially increasing the SLCs, PICCs and local service rates borne by rural end users right now, in the hope that "competition" (perhaps accompanied by lower rates) may develop at some indeterminate future date?

The Commission Should Resolve the Problems and Issues Arising from its Restructure of Access Charges for Large LECs Before Imposing Similar Rules Upon Rural LECs

Since the interstate access charges mandated by CC Docket No. 96-262 for price cap carriers went into effect on January 1, 1998, they have produced repeated complaints and controversies. See, e.g., "MCI Asks FCC for Changes To PICCs, Access Overhaul," Telecommunications Reports (March 2, 1998), at 8; "Rockefeller's Bill Would Require 'Full Disclosure' On IXCs' Bills," Telecommunications Reports (April 6, 1998), at 5; "Senate 'High Tech' Week Ends with Millennium 'Bang' after Starting with 'Slam-Dunk' on

'Slamming,'" Telecommunications Reports (May 18, 1998), at 9.

The Commission and the Congress have received numerous complaints that IXCs have failed to reduce interstate toll rates by more than a fraction of the reductions in access charges, while they have passed through to end users 100 percent or more of the PICCs which they have paid. At least one IXC initially "recovered" the flat-rated PICC by means of a usage-based, percentage surcharge on the bills of its small business customers. Other IXCs are "passing through" PICCs to customers of rural telephone companies that do not impose PICCs upon any IXCs at this time.

Neither the Commission nor the Congress intended access reform to increase the telecommunications costs of residential and small business customers, while benefitting only IXC stockholders and certain favored large business customers. Yet, this appears to be the predominant result to date of the Commission's CC Docket No. 96-262 proceeding.

The Western Alliance believes that the FCC should address and resolve the issues and problems arising from its earlier order, before imposing similar rules upon rural telephone companies.

The Commission Should Cap SLCs and PICCs for Rate-of-Return Carriers at the National Average for Price Cap Carriers

If the Commission proceeds with its proposed access restructuring for rural telephone companies, it must cap all SLCs and PICCs (primary residential line, single-line business, non-primary residential line, and multi-line business) at levels no higher than the respective national average SLCs and PICCs for price cap LECs. Because SLCs and PICCs are passed through to end users, these caps are necessary to ensure that the rates charged to rural end users are reasonably comparable to those charged to urban end users for similar services. See 47 U.S.C. §254(b)(3).

Western Alliance members serve sparsely populated areas (an average of only 3.24 subscribers per mile), and must often maintain loops 10-to-50 miles in length to reach isolated households and population clusters. Throughout the mountains and deserts of the western states, the high costs of long loops and widely dispersed customers are exacerbated by the need to withstand extreme climate and terrain conditions.

Given that Western Alliance members and other participants in the National Exchange Carrier Association (NECA) pools have per-subscriber loop costs far in excess of the national average, their SLCs and PICCs will significantly exceed those of the largely urban/suburban price cap LECs if not capped. This plainly violates the Act's requirement of comparability between rural and urban rates.

At present, it appears that the PICCs assessed upon IXCs are being passed through to their customers. The PICCs passed through to rural households and businesses should also remain reasonably comparable to those for urban households and businesses.

It makes little economic sense to charge a rural residential customer a higher SLC and PICC for a second line that costs less to install and maintain than the customer's primary line. It makes even less sense [and is unlawful under 47 U.S.C. §254(b)(3)] for a rural household to be charged a significantly higher SLC and PICC for a second line than an urban household. The end result is that rural households will no longer enjoy access to second lines for Internet access and dedicated facsimile service at affordable prices comparable to those paid by urban households.

Likewise, it is unreasonable and unlawful for significantly higher SLCs and PICCs to be imposed upon rural multi-line businesses than their urban counterparts. The large businesses presently bypassing rural telephone companies will not pay these increased SLCs and new PICCs. Rather, the burden of these new charges will be borne predominately by the small, 2-to-15 line businesses that can ill afford them as they struggle to survive in rural communities.

Capping will not eliminate the hardships imposed by increased SLCs and new PICCs upon rural households and small businesses. However, capping will at least keep the rural SLCs and PICCs reasonably comparable to those assessed in urban areas.

Capping at the national average SLCs and PICCs of the price cap carriers appears to be the most administratively efficient and effective method. The Commission and NECA (which develops the Common Line charges for most of the smallest Rate of Return carriers) can readily obtain the requisite SLC and PICC pricing information from the price cap LECs which serve over 90 percent of the nation's access lines, and incorporate it rapidly into the SLCs and PICCs for the participants in NECA's Common Line pool.

The Commission Should Cap <u>its Residual CCL Rate for Originating Calls</u>

The <u>NPRM</u> presupposes that SLCs and PICCs will be capped at some level, and that rural telephone companies and other rate of return LECs will recover their remaining interstate loop costs from a residual Carrier Common Line (CCL) charge for an indeterminate period. The loop costs remaining in the residual CCL will be substantial.

The Western Alliance believes that this residual CCL must be capped at one cent ($0.01) per minute for originating calls. This is necessary to ensure that IXCs will furnish comparable toll services to rural exchanges.

Many IXCs have long been reluctant to serve isolated and sparsely populated rural exchanges. <u>See</u> <u>Iowa Network Access Division</u>, 64 RR 2d 1167, 1170 (Comm. Car. Bur. 1988) (IXCs competing with AT&T were serving primarily larger, urban Iowa exchanges; only 17.5 percent of Iowa exchanges were receiving originating interLATA toll service from two or more carriers at the time of the proceeding). If IXCs are required to pay substantially higher CCL charges for calls originating on rural exchanges, many will simply not offer originating toll service to rural exchanges. This will violate 47 U.S.C. §254(b)(3) by depriving rural households and businesses of access to toll services "reasonably comparable" to the toll services provided in urban areas at rates "reasonably comparable" to rates charged for similar toll services in urban areas.

The Commission Should Not Transfer Local Switching, TIC or Marketing Costs to the Common Line Category

In addition to the substantial residual loop costs remaining in the CCL, the Commission also proposes to transfer to the CCL: (a) the costs of line-side ports from the local switching category (NPRM, para. 54); the (b) costs remaining in the residual TIC (NPRM, para. 70); and marketing expenses (NPRM, para. 86).

The Western Alliance opposes these transfers. If the Commission is trying to reduce CCL charges by transferring loop costs to the SLCs and PICCs paid by end users, it makes no sense to transfer simultaneously substantial additional switching, TIC and marketing costs into the CCL.

On the other hand, if the present transfers constitute the initial step of an attempt to reallocate the burden of switching and transport costs from the access charges paid by IXCs to the SLCs or PICCs paid by local service customers, they are unreasonable and economically inefficient. The IXCs presently bearing these switching and transport costs have much more power than local service customers to control or reduce them (e.g., by modifying their transport arrangements), and to allocate such costs to the toll users ultimately responsible for them.

The Commission's transfer proposals also create substantial administrative complexities and costs without producing any countervailing service or economic benefits for the public. A number of rate-of-return LECs participate in NECA's Common Line pool but not in NECA's Traffic Sensitive pool. The transfer of costs from the Traffic Sensitive tariffs of the latter carriers to the NECA tariff will create substantial complexities and rate adjustments that will have to be studied, computed and reviewed by the carriers, NECA, the Commission and IXC customers. In addition, the Commission has proposed to require rate-of-return LECs to conduct expensive cost studies to determine the geographically-averaged portion of local switching costs that is attributable to line-side ports and to trunk-side ports. The Western Alliance does not see what these substantial new administrative costs will do to advance the service goals of the 1996 Act.

Finally, if the Commission does transfer <u>any</u> costs from Local Switching (i.e., central office equipment (COE) category 3) to the common line category, it is absolutely essential that it continue to impute and provide the Local Switching Support Funds (LSSF) attributable to those costs to rural telephone companies that qualify for LSSF (previously known as Weighted DEM support). LSSF is a significant component of the high cost support mechanisms which will be provided to these rural telephone companies if the costs continue to be classified as COE category 3. Paragraph 6 of the <u>NPRM</u> reiterates the Commission's determination in CC Docket No. 96-45 that no changes shall be made in the existing high cost support mechanisms for rural telephone companies until January 1, 2001, at the earliest. The Western Alliance believes that this includes maintenance of the LSSF attributable to line-side ports and other COE category 3 costs, even if they are transferred to the common line category.

The Commission Should Employ High Cost Support
Solely to Maintain Affordable Local Service Rates

The Western Alliance vigorously opposes use of the federal high cost support received by rural telephone companies to offset any portion of their interstate access revenue requirements. The purpose of such high cost support is solely and entirely to maintain affordable local service rates. See 47 U.S.C. §254(b)(1). High cost support has never been used (and should not be used) as a device to reduce the interstate access charges paid by IXCs.

The Commission Should Not Transfer
GSF Investment and Expense of Rural Telephone Companies
to Billing And Collection

Whereas the NPRM appears to be intended as revenue neutral, certain proposals will substantially reduce the interstate access revenues of rural telephone companies. In particular, the Western Alliance opposes the proposal in paragraph 82 of the NPRM that Section 69.307 of the Rules be modified to allocate General Support Facilities (GSF) investment and expenses related to Billing and Collection services (B&C) to the billing and collection category.

Unlike the majority of large LECs, many rural telephone companies do not perform billing and collection in-house, but rather retain an outside service bureau. According to NECA, over 500 rural telephone companies have retained independent service bureaus to perform their B&C functions. These LECs have determined that it is more cost-effective to have their B&C functions performed by an outside contractor, and/or that they simply do not have sufficient manpower to handle B&C in-house.

There is currently no underallocation to B&C for the vast majority of rural telephone companies. Those employing service bureaus assign their expenses to the B&C element through the 6620 accounts. There is no need or justification to transfer additional costs to the B&C element for these companies.

The impact of changing the allocation of GSF investment and expenses to the "Modified Big Three Expense Factor" will be a significant interstate revenue loss for many rural telephone companies. Costs for GSF items such as general purpose computers will be improperly transferred to the B&C element, even though these computers are not used for B&C functions contracted out to the service bureaus.

Moreover, general purpose computer expenses and other GSF expenses transferred to B&C will be lost entirely, and will not be recoverable from the IXCs for whom rural telephone companies perform B&C services. These IXCs are sophisticated customers that will not pay for the expenses of general purpose computers not used to furnish their B&C services. Moreover, these IXCs generally purchase B&C services from rural telephone companies pursuant to long-term contracts which have terms of five years or more, and which contain fixed B&C charges not subject to increase due to any FCC-mandated reallocation of GSF costs.

Thus, the interstate access revenues of the affected rural telephone companies will be reduced by the amount of general purpose computer and other GSF costs allocated to the B&C element. Because most of these costs will not be recoverable from charges for B&C services, the proposed reallocation will constitute a significant revenue loss for the affected rural telephone companies. It should be rejected.

Conclusion

In sum, the Western Alliance opposes the restructuring of interstate access charges at this time. The proposed changes will not offset or overcome the demographic, geographic and economic impediments that preclude telecommunications competition in most rural areas. Rather, they will impair the ability of existing rural telephone companies to furnish "reasonably comparable" services to the many rural areas in which only they have heretofore been willing to invest. The ultimate losers will be the rural households and small businesses that depend upon these existing rural telephone companies. These rural customers will pay higher rates without any countervailing gains in service quality or service options.

If the Commission proceeds with access charge restructuring at this time, it should at least minimize the disruptions thereof by: (a) capping the SLCs and PICCs of rate-of-return LECs at the national average SLCs and PICCs for the price cap LECs; (b) capping the residual Carrier Common Line (CCL) charge at one cent ($0.01) per minute for originating calls; and (c) declining to shift local switching costs, residual Transport Interconnection Charge (TIC) costs and marketing costs to the common line category for recovery via SLCs, PICCs or residual CCL charges. In addition, the